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Germany

Dairy and Products

Background on Higher Prices For Dairy Products in Germany

2007

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Report Highlights:

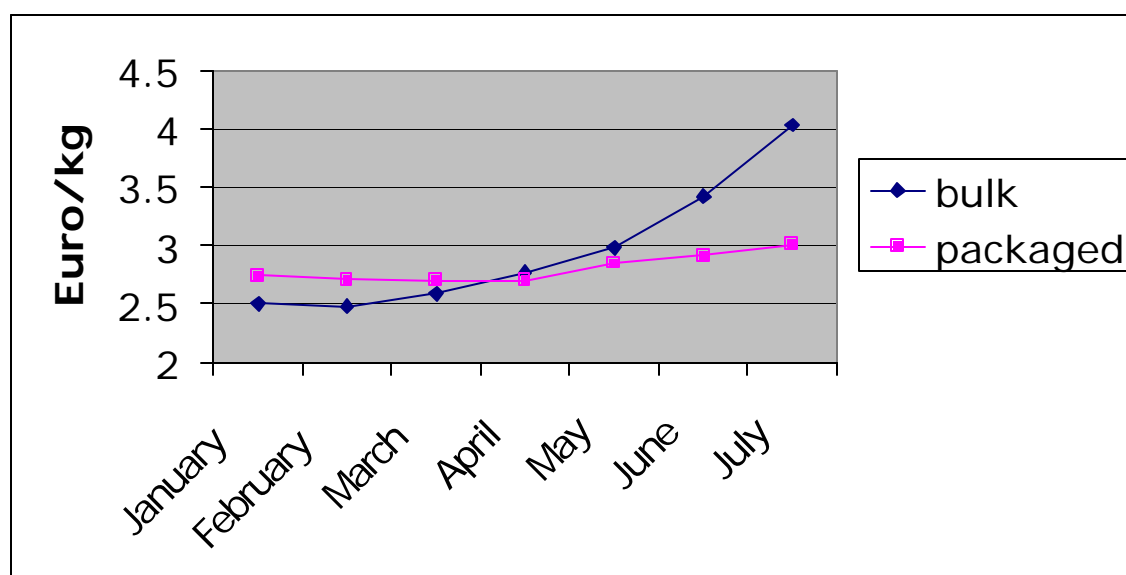
Price increases for bulk dairy products on the German as well as on the world market have enabled dairy processor to negotiate higher contract prices with German discount stores. This has resulted in up to 50-percent increases in consumer prices for dairy products and has prompted a heated public debate about the legitimacy of such increases. However, the actual additional costs for the "average" consumer only amounts to 2 Euro per month. The higher prices on the German market inhibit competitiveness on export markets which may render opportunities for U.S. exporters to fill the void.

Includes PSD Changes: No
Includes Trade Matrix: No
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Berlin [GM1]
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Price Increases for Fluid Milk and Butter

Consumer prices for dairy products, notably butter, increased drastically over the last three months. The Central German Market and Price Reporting Agency (ZMP) reported that the average price for fluid milk¹ increased from 0.58 Euro per liter in May 2007 to 0.66 Euro in July 2007, this translates into U.S.\$ 3.01² and 3.42 per gallon, respectively. In the same period butter prices increased from 0.77 Euro (U.S.\$ 3.99) per 250 grams (8.8 oz.) to 0.81 Euro (U.S.\$ 4.20). A further increase to up to 1.19 Euro (U.S.\$ 6.19) occurred on August 1, 2007. However, this last dramatic increase only mirrored a more gradual increase in bulk butter that had taken place before. The increase in packaged butter prices lagged behind because dairy companies were only able to increase prices when old contracts with retailers expired. Contracts for cheese and fresh cheese are due to expire at the end of August and new contracts will likely be negotiated at a higher prices.

Graph 1: Average monthly butter wholesale prices in 2007 in Euro per kg



Note: excluding VAT

Source: FAS based on data from ZMP

Factors contributing to the tight supply and higher prices on the German market:

- **Increased demand from the world market**
Over the last couple years demand for dairy products increased substantially in countries such as China, India, and Russia, while production did not increase at the same pace. This has resulted in increased world market prices and gives dairy companies an alternative to selling products on the local market.
- **Decreased exports from Australia because of a severe drought**
This contributes to higher world market prices.

¹ Pasteurized milk with 3.5 % fat content

² Conversion rate: 1 Euro = U.S.\$ 1.3693, as of July 31, 2007

- **Decreased exports from Argentina because of export taxes imposed by the Argentinian Government**

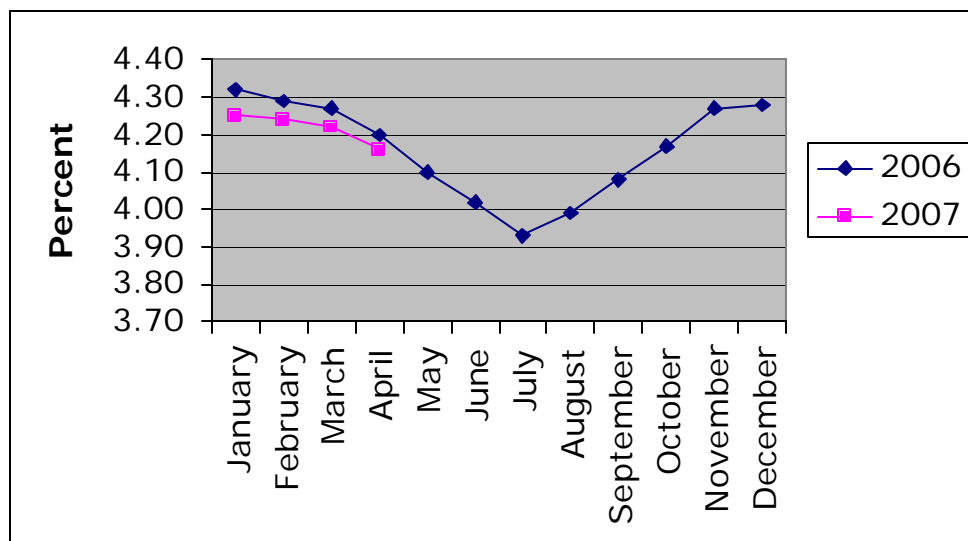
This contributes to higher world market prices.

- **CAP reform and empty intervention stocks**

As a result of CAP reform the intervention prices were gradually lowered for butter and non fat dry milk (NFDM)³. In addition, the reform introduced a cap on the volumes for butter intervention. In consequence, intervention was rarely triggered. In addition, the European Commission made use of the increasing world market price and gradually sold intervention stocks until they fell dry for NFDM in February 2006 and for butter in July 2007. In Germany, public intervention stock were sold out at the end of January 2007 for butter and at the end of September 2005 for NFDM.

- **Lower milk fat content**

In the first months of 2007 the average milk fat content in Germany was substantially lower than in 2006. ZMP attributes this to a decline in high energy compound feed resulting from increased feed costs.



Impact on trade

The higher prices make Germany an attractive destination for imported dairy products, particularly from other EU member states. While high tariffs may preclude large U.S. exports, some U.S. dairy products might find markets in Germany in the coming months.

German dairy exports have become less competitive to non-EU destinations, as the European Commission has put all export refunds to zero. This might open opportunities for US exporter in markets that Germany exported to in the past. (see table 2)

In addition, the high price level on the German market may result in lower German exports to other EU member states.

³ The intervention price for butter decreased from 3282 Euro per MT in MY 2003/04 to 2464 Euro in MY 2007/08. For skim milk powder the respective values are 2055 Euro and 1747 Euro.

Table 1: Germany's top dairy export destinations outside the EU**Butter** in MT

	CY 2006	Jan-May 2007
Russia	6,110	1,467
Iran	2,909	969
Algeria	1,500	300
Bosnia-Herzegovina	1,266	604
Saudi-Arabia	1,038	1,356
Japan	209	1,068
U.A.E.	197	1,131
Egypt	166	2,400

Cheese in MT

	CY 2006	Jan-May 2007
Russia	63,449	32,596
Japan	9,232	5,279
Bosnia-Herzegovina	3,620	1,773
Cuba	1,855	1,589
Switzerland	2,075	1,462

NFDM in MT

	CY 2006	Jan-May 2007
Egypt	1,977	1,016
Algeria	1,824	575
Indonesia	1,707	660
Cuba	975	800
Singapore	600	275
Malaysia	250	3,254
Philippines	-	1,200
Mexico	-	1,116
Morocco	472	950

WMP in MT

	CY 2006	Jan-May 2007
Nigeria	1,866	1,026
Saudi-Arabia	1,758	318
Israel	1,368	791
Libya	927	81
Indonesia	461	463
Turkey	320	241

Heated Public Debate

Over the past twenty years consumer prices for dairy products had trended downwards in Germany. This was a result of EU overproduction and the increasing share of discount stores in Germany. This trend has reversed over the past couple weeks. The Central German Market and Price Reporting Agency (ZMP) had continuously reported about this development. Outside the agricultural community public interest was spurred when the "Ruhr Nachrichten", a regional newspaper, in the most recent week-end edition reported about ZMP's expectation of drastic price increases ahead. Other Germany-wide newspapers and TV stations picked up the story.

This started a heated discussion which culminated in politicians from the Social-Democrats, the Green Party, and the Left Party as well the unions demanding that the unemployment benefits be raised to compensate for the higher dairy prices. This demand can be seen as an attempt from the politicians to position themselves as the fighter for the "small man". Actual additional costs do not justify any such demand (details see section "Headline and Reality" below)

The German Minister of Food, Agriculture, and Consumer Protection has criticized the retail chains for taking advantage of the necessary price adjustments for the farmers to increase consumer prices by 50 percent.

The Federal Association of Retailers (HDE) down played the price increases and contended that the strong competition among retailers in Germany will ensure that consumers will not be faced with unjustified high prices.

The German Farmers Union (DBV) warned not to overstate price increases. DBV pointed out that even with the recent price increases, the butter and milk prices are still lower than 25 and 15 years ago, respectively. Also, DBV demanded that the price increase needs to translate into higher milk prices for farmers, which they badly need to compensate for higher energy costs. In May 2007, average milk price was just 2 cents per liter higher than in May of 2006.

Headlines and Reality

While price increases of 50 percent seem enormous, one has to remember that food prices in Germany are comparatively low and below average when comparing with other EU-15 countries. Also, while dairy products are an import part of the diet, they are not staple. In 2005, German per capita consumption amounted to 64 liters of fluid milk and 6.4 kg of butter. This translates into 1.2 liters of milk and half a 250g-package of butter per week. Therefore, for the average consumer the total of the price increases stated above translate into additional spending of 0.50 Euro a week or 2 euro per months or 12.50 Euro per year.

Key Statistics on the German Dairy Sector

Dairy is the most important sector of German agriculture. The production value of milk at producer level price amounted to 7.9 billion Euro (U.S.\$ 10.8 billion) in 2006 and represented 21 percent of total German agricultural production.

In 2006, German milk farmers delivered 27.1 million MT (approximately 7.1 billion gallons) of milk to their dairy processors at an average price of 273.50 Euro⁴ per 1 MT. The German production of dairy products is summarized in the table below.

⁴ For standardized milk with 3.7 percent fat and 3.4 percent protein.

Table 2: German Production of Dairy Products in 1000 MT

	2001	2002	2003	2004	2005	2006
Deliveries to dairies	27,170	27,057	27,563	27,383	27,663	27,132
Fluid milk	5,485	5,524	5,821	5,798	5,815	5,923
Cheese	1,177	1,174	1,206	1,258	1,331	1,398
Butter	420	430	452	444	450	437
NFDM	304	324	324	243	255	203
WMP	167	154	154	162	154	145

Note: Definitions for cheese, NFDM, and WMP concurs with reporting instructions for annual reports. Therefore, Cheese production does not include fresh cheeses, NFDM also includes buttermilk powder, WMP also includes cream powder and semi-skimmed milk powder

Source: FAS Berlin based on information from the German Federal Office of Statistics